CITY OF Los Angeles
DEFERRED COMPENSATION PLAN

Board Report 23-32

Date: September 19, 2023

To: Board of Deferred Compensation Administration

From: Plan Governance & Administrative Issues Committee

Subject: 2024 DCP Resource Review & FY 2024-25 Proposed Budget Requests

Recommendation:

That the Board of Deferred Compensation Administration (Board):

1) Adopt the following Deferred Compensation Plan (DCP) Growth and Expense variable and Fee variable assumptions for use in projecting future DCP Reserve Fund balances:
    a) DCP Assets Growth Rate – **5.5%**
    b) Net Participation Growth Rate - **3%**
    c) Annual Administrative Expenses Growth Rate - **3%**
    d) Special Rates Increase Factor: Personnel - **85%**
    e) Special Rates Increase Factor: City Attorney - **85%**
    f) Stable Value Fund Average Rate of Return - **2%**
    g) Participant Fees: Annual Basis Point Charge - **0.09%**
    h) Participant Fees: Annual Dollar Cap - **$115**

2) Approve the following requests to be submitted with regard to the City's FY 2024-25 proposed budget:
    a) Add position authority for one Senior Benefits Analyst I position.
    b) Add position authority for one Benefits Specialist position.

Discussion:

At its March 20, 2018 meeting, the Board adopted staff's recommendation to convene the Plan Governance & Administrative Issues Committee (the "Committee") on an annual basis to conduct a DCP resource review. This evaluation includes a review of the upcoming plan year resources and the key assumptions used in developing the long-term (ten-year) projection of the DCP Reserve Fund balance and additional considerations for long-term resource planning for the DCP. On August 29, 2023, the Committee conducted the annual resource review for plan year 2024.

To assist the Board in its review of the Committee's recommendations, staff has developed a supplementary report (**Attachment A**) summarizing the key assumptions proposed to forecast the long-term DCP Reserve Fund balance compared to the DCP Target Reserve Fund Balance.

A. Background

Pursuant to the Los Angeles Administrative Code[1], all DCP administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses and make up the DCP Reserve Fund: (1) a fund held with the DCP Third-Party Administrator (TPA), which acts as a repository for participant fees and from which most DCP expenses are paid; and (2) a fund held within the City, from which travel expenses and equipment purchases are paid. To maintain stability within the fee structure, the DCP maintains a Target Reserve Fund balance. The Target Reserve Fund Balance is 50% (or six months) of annual DCP operating expenses.

As of June 30, 2023, the Target Reserve Fund Balance was $1.7 million compared to the actual balance of $6.3 million (this balance does not reflect encumbrances/liabilities in the amount of approximately $893,000 for services through June 30, 2023).

B. Annual Review of Reserve Fund Assumptions

Proposed 2024 Reserve Fund Assumptions

Following is a summary of the key assumptions that are used to forecast the long-term (ten-year) projection of the DCP Reserve Fund balance. For 2024, the proposed key assumptions recommended by the Committee are summarized below.

Variable Description	2023 Assumptions*	2024 Proposed Assumptions
Plan Assets Growth Rate	5.5%	5.5%
Net Enrollment Growth Rate	3.0%	3.0%
Administrative Expenses Inflation Factor	3.0%	3.0%
Indirect Costs Rate: Personnel	91.0%	**85.0%**
Indirect Costs Rate: City Attorney	92.0%	**85.0%**
Stable Value Fund Average Rate of Return	2.0%Section 4.1407(f)	2.0%
Participant Fees: Basis Point Charge	0.09%	0.09%
Participant Fees: Annual Dollar Fee Cap	$115.00	$115.00

** 2023 Reserve Fund assumptions were adopted by the Board at its September 29, 2022 meeting.*

Recommended actions for 2024 Reserve Fund assumptions are discussed as follows:

1. **Plan Assets Growth Rate**
   2024 Recommendation: 5.5% (No Change)

   The projected DCP assets growth rate incorporates both investment gains and participant contributions/rollovers. This projection incorporates future value formulas combining net new contributions and assumed rates of return. The following table provides average gross growth rates over various time periods, inclusive of both contribution and investment gains.

[1] Los Angeles Administrative Code, Division 4, Chapter 14, Section 4.1407(f).

Average Growth Rates		
Average (Inception to Present)	→	**20.1%**
Average (1986-2000)	→	**36.1%**
Last 20 years average (2003-2022)	→	**9.9%**
Last 15 years average (2008-2022)	→	**7.7%**
Last 10 years average (2013-2022)	→	**8.9%**
Last 5 years average (2018-2022)	→	**6.6%**

The 20-year history includes three significant equity market downturns (2000, 2009, early 2020, and late 2021) and has produced an average annual DCP growth rate of 9.9%. Following a period of strong equity performance in the previous years, market performance over the last five years have trended lower, though the market seems to be rebounding in 2023. Using current assets and participant allocations, the Board's investments consultant has updated its long-term projected investment rate of return for the DCP, which is 5.7%. Staff has combined that with a future value projection incorporating an assumption regarding average net cash inflows. The resulting forward-looking projection is 6.2%. This projection has increased from 5.9% included in last year's resource review, though the projection had been marginally decreasing in prior years. As such, the Committee recommends no changes to the assumption of an annual assets growth rate of **5.5%** over the next ten years, in order to remain conservative in anticipation of any market fluctuations.

2. Net Enrollment Growth Rate
2024 Recommendation: 3% (No Change)

Net annual enrollment growth in the DCP has averaged 2.8% over the last five years, a period primarily characterized by economic uncertainty and workforce volatility from early 2020 through present day. Although the net enrollment average has fallen in recent years, this number appears to be a reasonable predictor of average future long-term growth, particularly as the City has resumed its hiring. The Committee recommends maintaining an assumed **3%** average net participation growth rate over the next ten years.

3. Administrative Expenses Inflation Factor
2024 Recommendation: 3% (No Change)

Administrative expenses are primarily driven by staffing costs. This factor considers increases in staffing costs due to inflation and wage increases as well as periods in which positions are vacant. The Committee's recommendation is to maintain the previously adopted **3%** growth rate assumption.

4. Indirect Costs Rate
2024 Recommendation: Change to 85% (Personnel Department) and 85% (City Attorney)

Special Rates are provided by the City Controller as part of the annual Cost Allocation Plan (CAP) for the calculation of indirect costs, which the DCP applies to the staffing reimbursements to the Personnel Department and the City Attorney's Office. The DCP reimburses the Personnel Department for five (5) positions that are fully dedicated to the DCP and two (2) positions at the City Attorney's Office that partially support the program. For the Personnel Department and City Attorney, the rates utilized are presently 78.02% and 74.08%, respectively[2].

For the 2024 assumption, staff assumed an increase of the indirect cost rate by 2% annually for the next ten years, which produced a projected ten-year rate of 89% for Personnel and 85% for City Attorney. Staff also reviewed the historical average of the past ten years. While the City Attorney's rate of 85% tracks closely with its ten-year historical average, the ten-year historical average for the Personnel Department is significantly lower (72%) than the projected rate (89%). Given these considerations, the Committee recommended a change from the 2023 assumption of 91% to 85% for the 2024 assumption of the Personnel Department indirect costs rate.

The Committee additionally held discussion on how best to ensure the indirect costs rate included costs that were applicable to the DCP. The Special Rates as provided by the Controller's Office may include consideration of costs that are aggregated on a Citywide basis. As an example, the Committee indicated that any added facility costs in the future (discussed in paragraph D2 of this report) should require the indirect costs rate be reduced when applying to Personnel Department reimbursements if the DCP is no longer utilizing Personnel Department facilities. Additionally, the Committee indicated that other City special funded programs conduct "true ups" of their indirect cost rates to ensure they are paying for only their share of Citywide costs. Accordingly, methodology for staff reimbursements may change in the future and staff has noted such changes will need to be discussed with the Personnel Department's Administrative Services Division.

The Committee recommends the adoption of assumed Indirect Cost Rates of **85%** (from 91%) for Personnel Department reimbursements and **85%** (from 93%) for City Attorney staffing reimbursements.

5. **Stable Value Fund Average Rate of Return**
   2024 Recommendation: 2% (No Change)

   The Reserve Fund is primarily held within a special account in the DCP Stable Value Fund. The average rate of return for the Stable Value Fund over the past five years (ending 2022) has been 2.21%. Although the U.S. Federal Reserve Board indicates there may be further interest rate increases through the end of 2023, the Committee recommends maintaining a conservative assumption of **2%**.

6. **Participant Fees**
   2024 Recommendation: 0.09% Participant Fees; Annual Dollar Cap $115 (No Change)

   In line with staff's recommendation in the previous Resource Review, staff is not recommending any actions targeted at reducing the projected surplus in the Reserve Fund at this time. As a consequence, the Committee recommends no changes to participant fees.

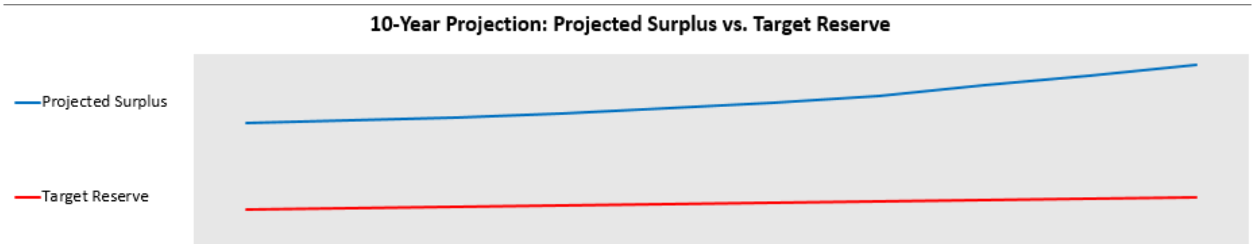
[2] Cost Allocation Plan (CAP) 45 for 2022-23, Special Rates.

C. DCP Reserve Fund Ten-Year Projection

1. Baseline Scenario

Staff has updated its ten-year forecast, incorporating DCP data as of June 30, 2023, current expense information, and the proposed key variable assumptions for 2024. The projected Reserve Fund surplus is projected to remain steadily above the Target Reserve Fund Balance over the ten-year period. This projection is referred to as the “**Baseline Scenario**.”

Baseline Scenario

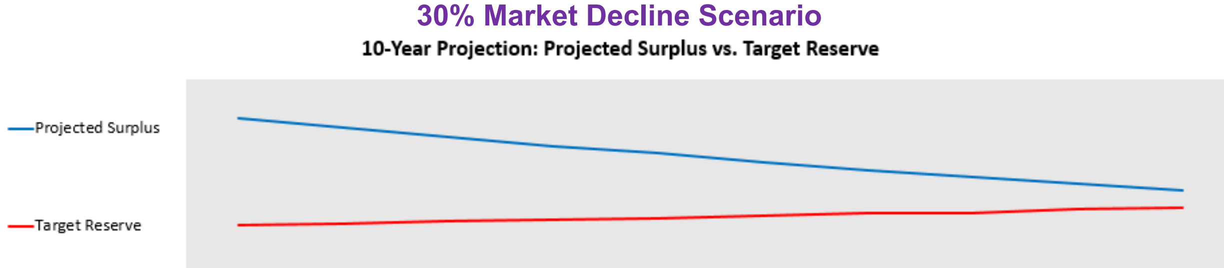


	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Surplus	$5,178,168	$5,307,012	$5,420,719	$5,571,641	$5,813,350	$6,050,671	$6,336,721	$6,725,882	$7,123,843	$7,584,636
Target Reserve	$1,642,986	$1,710,551	$1,786,436	$1,838,847	$1,867,830	$1,948,433	$2,005,704	$2,039,693	$2,125,452	$2,188,034

2. Market Decline Scenarios

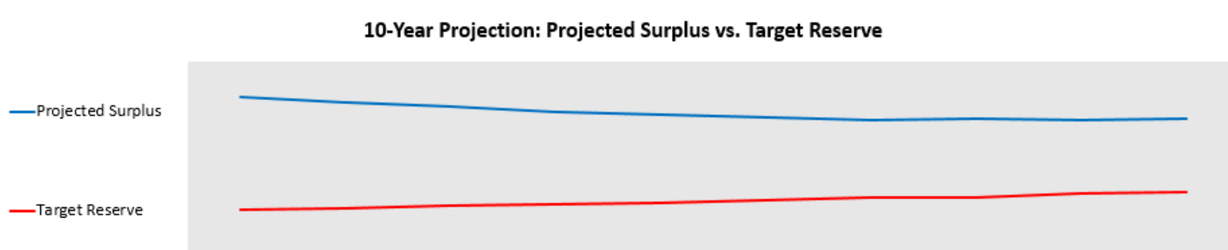
Asset values can fluctuate significantly based on market returns. Market returns in 2023 year-to-date have rebounded from the downturn in 2022, amid continuing concern over inflation rates and recession fears. The most significant market decline occurred in 2008, with a 22% year-over-year decline. The following charts illustrate an assumption of 30% or 20% year-over-year decline in DCP assets in 2024 applied to the Baseline Scenario.

30% Market Decline Scenario



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Surplus	$4,829,392	$4,583,301	$4,294,338	$4,013,184	$3,791,651	$3,532,701	$3,287,484	$3,108,303	$2,898,650	$2,710,237
Target Reserve	$1,642,986	$1,710,551	$1,786,436	$1,838,847	$1,867,830	$1,948,433	$2,005,704	$2,039,693	$2,125,452	$2,188,034

20% Market Decline Scenario



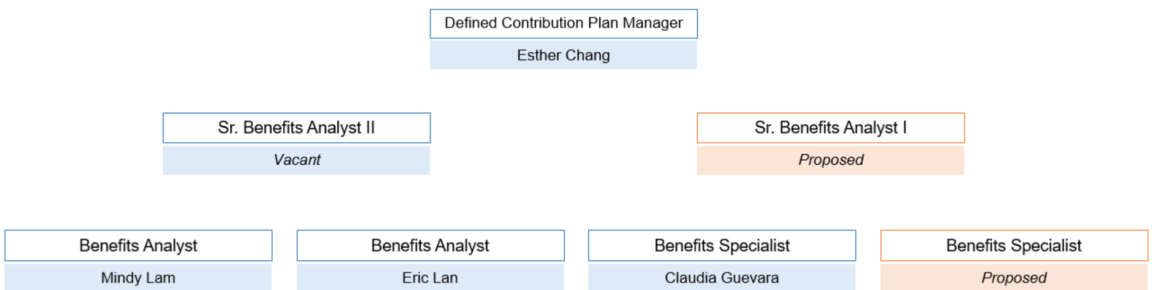
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Surplus	$4,945,650	$4,824,538	$4,669,798	$4,532,670	$4,465,551	$4,372,025	$4,303,896	$4,314,162	$4,307,047	$4,335,036
Target Reserve	$1,642,986	$1,710,551	$1,786,436	$1,838,847	$1,867,830	$1,948,433	$2,005,704	$2,039,693	$2,125,452	$2,188,034

In either a 30% or 20% market decline scenario, the projected Reserve Fund surplus would steadily decline, but not fall under the Target Reserve Fund Balance within the ten-year projection.

D. DCP Future Resource Considerations & Additional Scenarios

Both the Baseline and Market Decline Scenarios indicate surpluses above the target reserve amount over most or all of the period within the ten-year projection. Still, as with the 2023 Resource Review, staff remains cautious of actions to reduce the surplus in the immediate future. The DCP may face new resource demands in the future, including the following:

1. **Staffing –** In 2023, the DCP filled the newly created Defined Contribution Plan Manager position, and is in the process of filling a vacant Senior Benefits Analyst II position. It is recommended that additional staffing resources be added to support the continued growth of the DCP over the next ten years as the program faces an increased workload at all levels. Staff proposes adding one Senior Benefits Analyst I position and one Benefits Specialist position to the program, with the tentative organizational chart as follows:

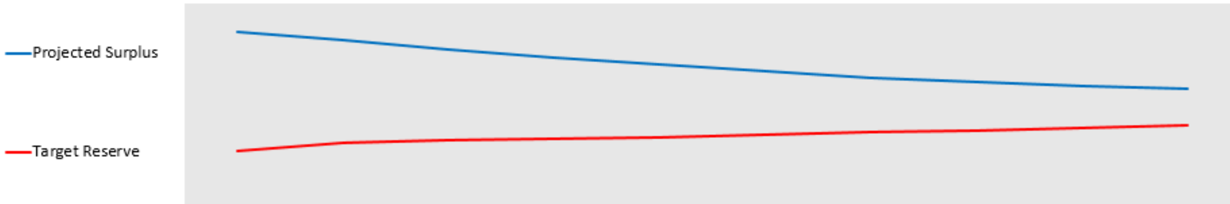


The Senior Benefits Analyst I position will allow for a more continuous line of succession and knowledge retention, as currently there is an experience and job class level gap between the Benefits Analyst positions and the Senior Benefits Analyst II position. It will also allow more resources to be identified for program enhancements and support for the contracts managed by the program (which doubled in number since 2022), along with the benefit of ensuring the knowledge base for the program is shared among more positions. The proposed Benefits Specialist position would assist the current Benefits Specialist position in better managing the incoming flow of participant forms and requests and payroll processing while creating an opportunity for cross-training and position redundancy. This will help ensure continuity of services should the other Benefits Specialist become unavailable or the position is vacated. The proposed Benefits Specialist position would provide critical day-to-day support in processing participant forms (such as purchase of service credits, accrued leave deferral requests, special catch-up enrollments, etc.) and payroll processing, which require timely review and action and will have the most direct impact on the quality of customer service delivery.

The following scenario illustrates the cost of two additional positions, a Senior Benefits Analyst I and a Benefits Specialist, beginning in fiscal year 2024-25, added to the Baseline Scenario.

ADDITIONAL STAFFING COSTS SCENARIO

10-Year Projection: Projected Surplus vs. Target Reserve



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Surplus	$5,178,168	$4,933,854	$4,655,746	$4,395,485	$4,205,911	$3,991,091	$3,803,356	$3,696,280	$3,574,712	$3,491,817
Target Reserve	$1,642,986	$1,897,130	$1,978,612	$2,036,789	$2,071,710	$2,158,430	$2,222,000	$2,262,478	$2,354,921	$2,424,386

These position authorities would allow the program an organizational structure that would further provide a measure of flexibility to fill positions strategically to meet changing resource needs (managing staffing levels through attrition, hiring in-lieu, etc.).

2. **Facilities –** At this time, DCP and local contractor staff are working a hybrid telecommute schedule, with certain days in-person at the City Hall office. The DCP continues to consider the options and costs for its facilities, including office space for the DC Plan Manager and a potential move away from staff's current location in City Hall. Following is a summary of the current options for consideration.

    - <u>City Hall, Employee Benefits Office (current location)</u>: Currently, space is available for the existing DCP staff and local counselor needs. There is an available conference room that is identified to be converted to the DC Plan Manager's office.
        - Leasing and facility costs are included in the DCP's existing budget and paid to the Personnel Department by way of the indirect costs Special Rate that is applied to the positions fully dedicated to DCP. Should consideration be made to move away from City Hall or Personnel Department space, additional discussions will need to take place with the Personnel Department's Administrative Services Division to identify whether the indirect costs Special Rate can be modified.

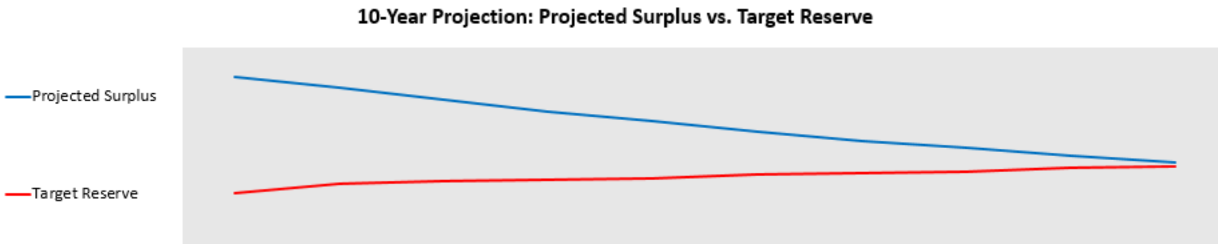
    - <u>LAFPP</u>: Staff is in contact with LAFPP to identify appropriate space and explore the ramifications of a lease agreement. LAFPP has indicated that there is space available for immediate DCP needs. A tentative cost of approximately $3,670 per month has been quoted, which addresses only the direct lease cost and facilities expenses. With consideration to other office and administrative costs, staff initially estimates a rate of approximately $6,000 per month or $72,000 annually.

    - <u>LACERS</u>: In early 2023, LACERS indicated that it does not have available space for lease at its new building.

    - <u>Other City of Los Angeles Space</u>: A formal request would need to be provided to the Office of the City Administrative Officer (CAO) and the General Services Department (GSD). GSD has indicated that they would need to search for a space for a direct lease as there currently is no City-owned space that might be suitable (whether due to availability or the need for facility improvements).

The following projection illustrates the outlook for both additional staffing and the new facility costs, added to the Baseline Scenario.

ADDITIONAL STAFFING & NEW FACILITY COSTS SCENARIO

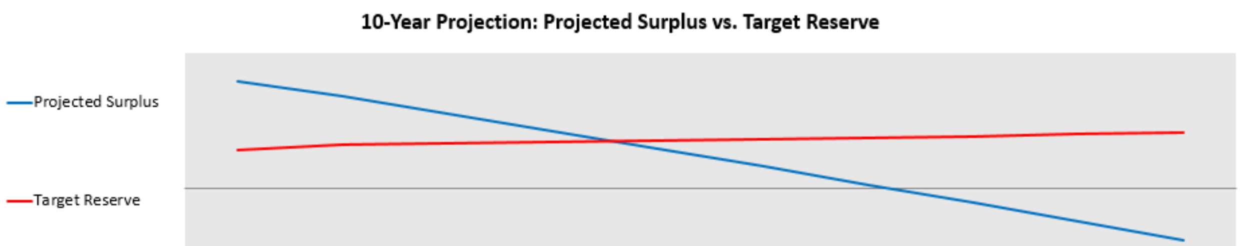


	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Surplus	$5,106,168	$4,786,254	$4,428,809	$4,085,333	$3,808,519	$3,502,284	$3,218,801	$3,011,483	$2,785,012	$2,592,379
Target Reserve	$1,678,986	$1,934,210	$2,016,805	$2,076,127	$2,112,229	$2,200,163	$2,264,986	$2,306,754	$2,400,524	$2,471,358

Though the Projected Surplus reaches the Target Reserve in 2033, it is noted that this projection assumes all positions are continually and fully occupied, in addition to other assumptions that are conservative for purposes of this review.

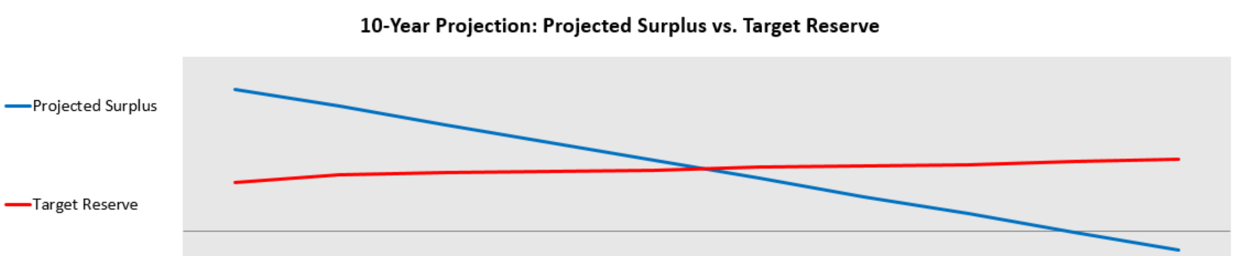
For further consideration, following are additional projections incorporating 30% and 20% market decline assumptions applied in 2024:

ADDITIONAL STAFFING & NEW FACILITY COSTS WITH 30% MARKET DECLINE SCENARIO



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Surplus	$4,757,392	$4,062,544	$3,302,427	$2,526,876	$1,786,820	$984,314	$169,564	$(606,096)	$(1,440,181)	$(2,282,020)
Target Reserve	$1,678,986	$1,934,210	$2,016,805	$2,076,127	$2,112,229	$2,200,163	$2,264,986	$2,306,754	$2,400,524	$2,471,358

ADDITIONAL STAFFING & NEW FACILITY COSTS WITH 20% MARKET DECLINE SCENARIO



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Surplus	$4,873,650	$4,303,781	$3,677,888	$3,046,362	$2,460,720	$1,823,637	$1,185,977	$599,764	$(31,784)	$(657,220)
Target Reserve	$1,678,986	$1,934,210	$2,016,805	$2,076,127	$2,112,229	$2,200,163	$2,264,986	$2,306,754	$2,400,524	$2,471,358

The Target Reserve threshold in both scenarios would be crossed beginning in 2028. However, cost variables would be changed in a market decline scenario to mitigate the decreasing rate of the surplus, and actual costs would be managed more closely during the quarterly reviews of the Reserve Fund with updated long-term projections. Costs may be managed in future years by general staff attrition, filling positions in-lieu with lower-level classifications, or by reducing facilities costs.

The Committee further requested that staff conduct a future fee structure review in order to determine whether the current fee structure best supports resource considerations and a changing participant demographic with increasing assets.

3. **Program Services and Features –** Adding new DCP programs and services may result in higher ongoing program costs in the future, such as:

    - Investment Advice
    - Fiduciary Liability Insurance
    - Plan Audit (though an amount has been budgeted, the required amount may increase in future years should the scope of the audit increase)

    While these enhancements have been postponed due to the increased workload stemming from the City and Department of Water and Power (DWP) payroll system conversions and anticipated post-conversion issues, should the additional positions be approved, more staffing resources will be available to move these enhancements forward. These new services do represent additional potential resource costs over the next ten years that are not yet accommodated in the current projection. Should resources become available to address these matters in 2024, an updated projection will be developed and provided to the Board as part of the quarterly reimbursements and Reserve Fund reviews and updated projections.

E. Summary and Recommendations

Staff recommends that the Board adopt the Committee's recommendation to adopt the proposed 2024 Reserve Fund assumptions as outlined in this report and approve the request for additional position authorities to be submitted for the City's FY 2024-25 proposed budget.

Submitted by: Mindy Lam, Benefits Analyst
Reviewed by: Esther Chang, Defined Contribution Plan Manager

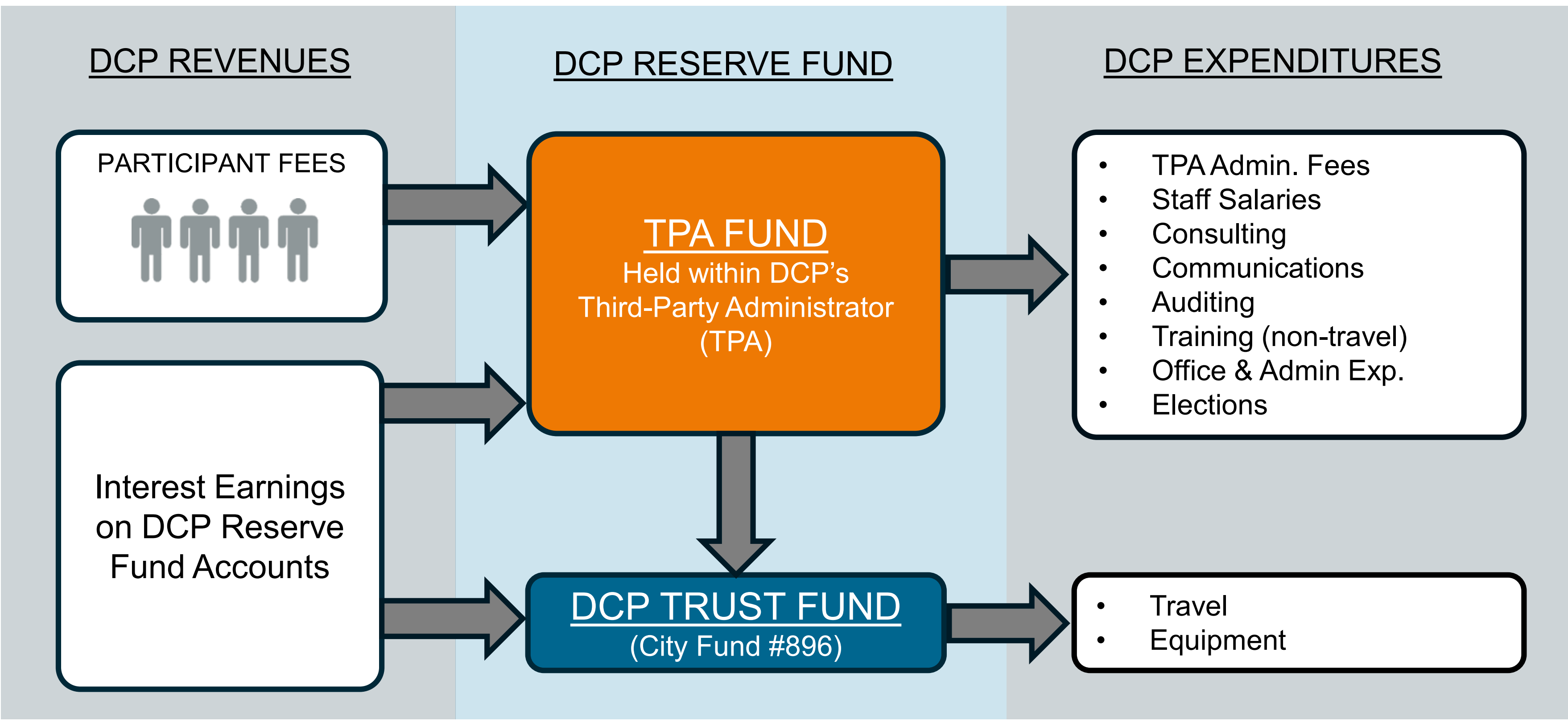
2024 DCP BUDGET & RESOURCE REVIEW

September 19, 2023

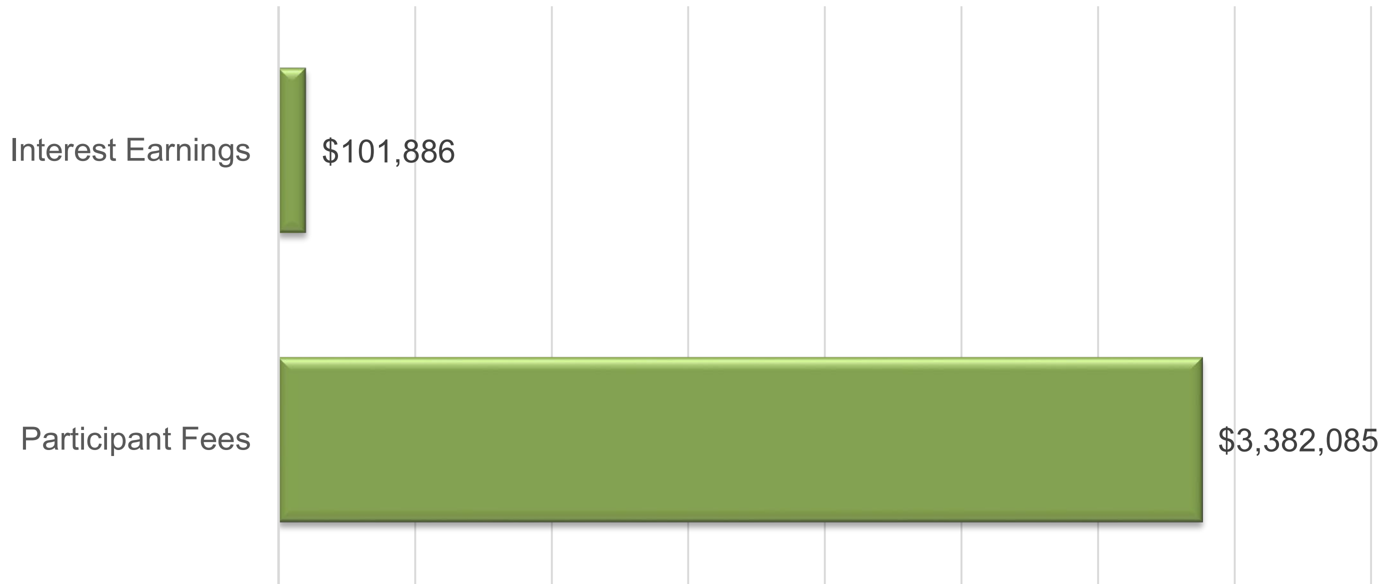
FLOW OF FUNDS: OVERVIEW

Pursuant to Los Angeles Administrative Code (LAAC) Division 4, Chapter 14, all Deferred Compensation Plan internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: (1) an account held with the Third-Party Administrator (TPA), which acts as a repository for participant fees and from which most DCP expenses are paid; and (2) pursuant to LAAC Division 5, Chapter 92, a “Deferred Compensation Plan Trust Fund,” held within the City, from which education-related travel and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund (“Reserve Fund”).

-- BDCA Governance Policies/Bylaws, Section 5

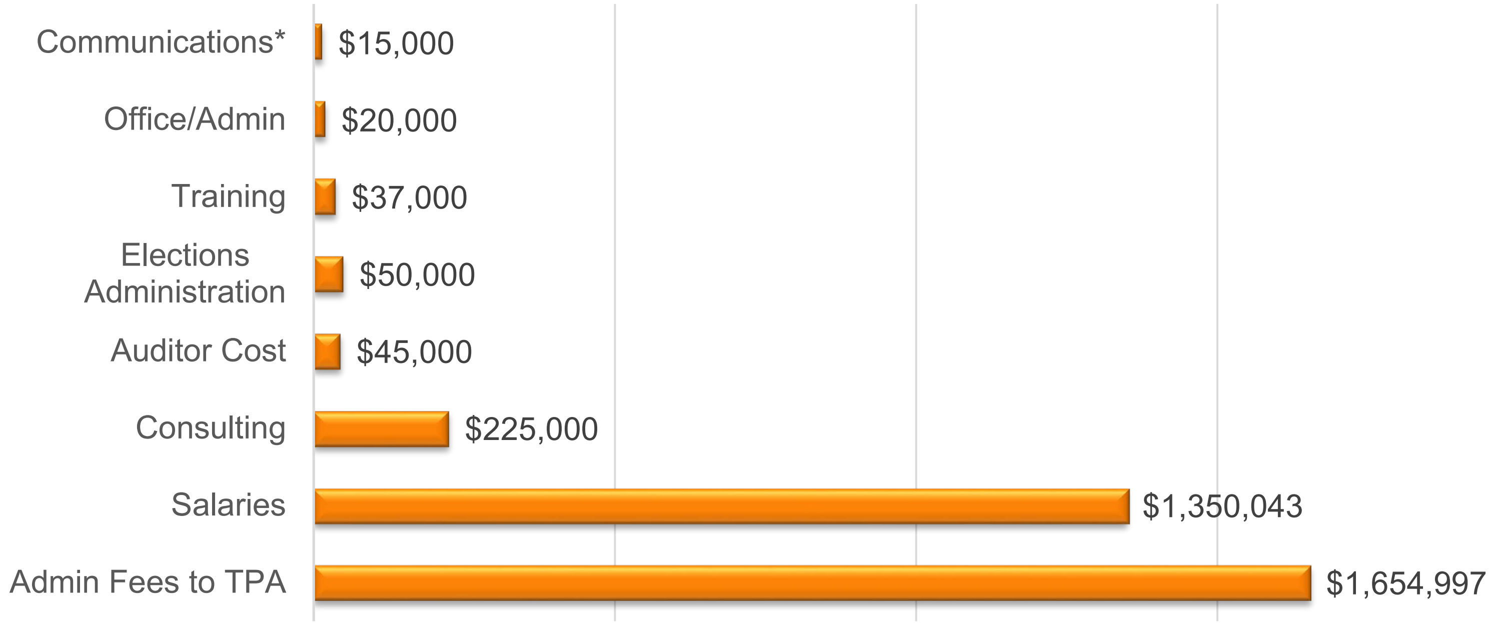


PROJECTED 2024 REVENUES



Projected 2024 Revenues - $3.5 million

PROJECTED 2024 EXPENDITURES



*Note: Projected Expenditures are reflective of adopted budget items in 2023 with exception to the Communications estimate, which is based on a 5-year average of actual expenditures from this budget category.

Projected 2024 Expenditures - $3.4 million

TARGET RESERVE FUND BALANCE

- The adopted Target Reserve Fund Balance is 50% of annual operating expenses (projected to be **$1.7 million** in 2024).
- As of 6/30/23, the Reserve Fund balance was **$6.3 million.***
- In previous years, the Board had established a "structural deficit" to gradually reduce the Reserve Fund balance.
- Projected Revenues and Expenses are based on Key Assumptions adopted by the Board at its September 29, 2022 meeting.

Reserve Fund

TPA Fund
(Reserves held within TPA)
+
DCP Trust Fund
(City Fund #896)

Target Reserve Fund Balance

50% of Annual
Operating Expenses

* This balance does not reflect encumbrances/liabilities in the amount of approximately $893,000 for services through 6/30/2023.

2023 RESERVE FUND
KEY ASSUMPTIONS

Expenses Inflation Adjustment Factor	*Net Enrollment Adjustment Factor*	*Plan Asset Growth Adjustment Factor*	*Stable Value Fund Interest Rate Assumption*	*Basis Points Charged Against Participant Accounts*	*Fee Cap*
3.0%	**3.0%**	**5.5%**	**2.0%**	**0.09%**	**$115**

Personnel Avg. Special Rate	*City Attorney Avg. Special Rate*
91 %	**93%**

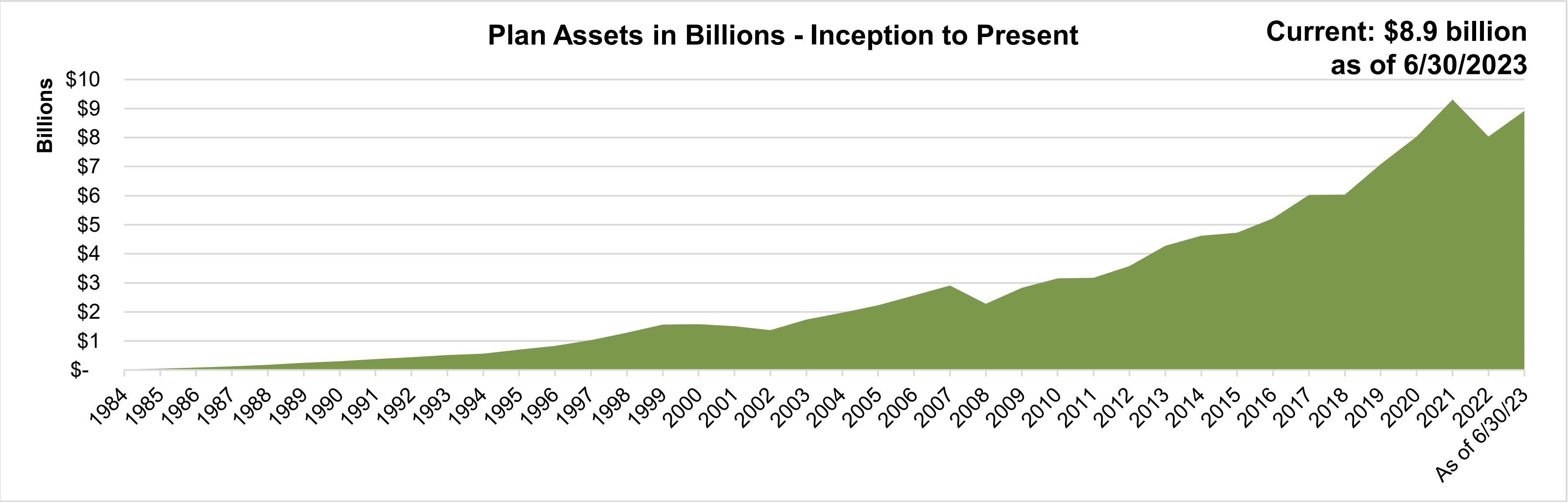
These assumptions were last approved by the Board on September 29, 2022.

2024 KEY ASSUMPTIONS
Plan Assets Growth Rate

Current: **5.5%**
No change

Where Applied: Total overall growth rate for DCP assets.

Considerations: 5, 10, 15, and 20-year growth rate trends higher than assumption.
Market volatility in recent years does not necessarily indicate future performance.



2024 KEY ASSUMPTIONS

Plan Assets Growth Rate

Historical and Projected Growth Rates*	
Last 20 years average (2003-2022) -->	**9.9%**
Last 15 years average (2008-2022) -->	**7.7%**
Last 10 years average (2013-2022) -->	**8.9%**
Last 5 years average (2018-2022) -->	**6.6%**
Projected Investment-Only Rate of Return (Mercer)	**5.7%**
Projected Total (Investments + Contributions) Annual Growth Rate -->	**6.2%**

*Historical averages through previous year end (12/31/22).

Historical Plan Assets Inception to Present

Year	Assets	% Change
1984	$17,990,298	N/A
1985	$48,584,697	170%
1986	$84,762,277	74%
1987	$126,921,243	50%
1988	$180,395,336	42%
1989	$249,105,465	38%
1990	$303,691,355	22%
1991	$378,018,448	24%
1992	$441,306,161	17%
1993	$516,401,147	17%
1994	$564,392,235	9%
1995	$702,779,928	25%
1996	$831,689,383	18%
1997	$1,029,129,147	24%
1998	$1,285,271,264	25%
1999	$1,564,440,301	22%
2000	$1,578,565,882	1%
2001	$1,508,545,448	-4%
2002	$1,373,444,396	-9%
2003	$1,737,260,679	26%
2004	$1,973,665,625	14%
2005	$2,230,031,810	13%
2006	$2,566,734,158	15%
2007	$2,909,282,960	13%
2008	$2,279,918,897	-22%
2009	$2,828,435,629	24%
2010	$3,154,860,910	12%
2011	$3,174,274,111	1%
2012	$3,578,684,906	13%
2013	$4,277,754,120	20%
2014	$4,622,493,622	8%
2015	$4,726,682,745	2%
2016	$5,221,905,502	10%
2017	$6,027,047,090	15%
2018	$6,037,310,346	0%
2019	$7,087,584,205	17%
2020	$8,035,190,777	13%
2021	$9,307,962,971	16%
2022	$8,035,340,110	-14%
As of 6/30/23	*$8,919,031,562*	n/a
Projected end of 2023*	***$9,140,003,415***	***14%***

*Projected 2023 outcome based on current Key Assumption of 5.5%, applied to Q3 and Q4 of 2023.

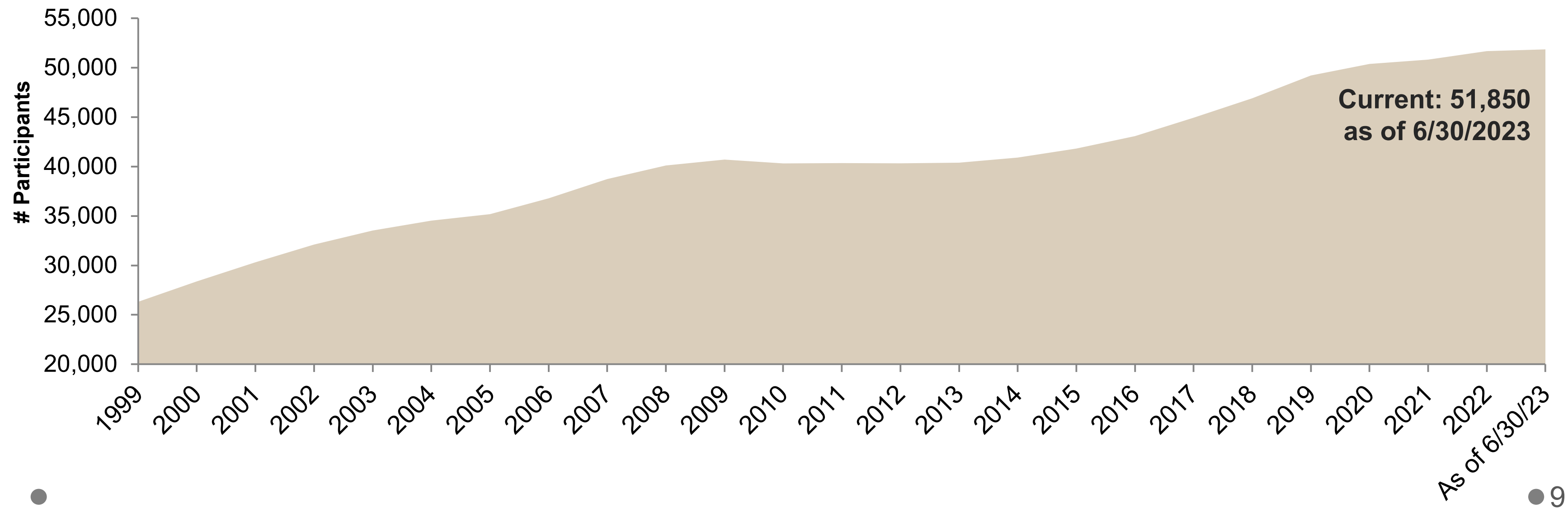
2024 KEY ASSUMPTIONS
Net Enrollment Growth Rate

Current: **3.0%**
No change

Where Applied: Estimated growth rate of the number of participant accounts

Considerations: There was slowed hiring and increase of retirements and other separations since 2020, though hiring activity seems to be resuming in 2023.

Historical DCP Participation - 1999 to Present



2024 KEY ASSUMPTIONS

Net Enrollment Growth Rate

Historical Growth Rates*	
Last 20 years average (2003-2022) -->	2.4%
Last 15 years average (2008-2022) -->	2.0%
Last 10 years average (2013-2022) -->	2.5%
Last 5 years average (2018-2022) -->	2.8%

*Historical averages through previous year end (12/31/22)

HISTORICAL NET ENROLLMENT		
Year	Participants	% Change
1999	26,319	-
2000	28,382	7.8%
2001	30,315	6.8%
2002	32,109	5.9%
2003	33,528	4.4%
2004	34,528	3.0%
2005	35,182	1.9%
2006	36,784	4.6%
2007	38,733	5.3%
2008	40,106	3.5%
2009	40,702	1.5%
2010	40,316	-0.9%
2011	40,348	0.1%
2012	40,325	-0.1%
2013	40,389	0.2%
2014	40,906	1.3%
2015	41,818	2.2%
2016	43,076	3.0%
2017	44,938	4.3%
2018	46,904	4.4%
2019	49,209	4.9%
2020	50,377	2.4%
2021	50,814	0.9%
2022	51,674	1.7%
As of 6/30/2023	*51,850*	*n/a*
Projected end of 2023*	***52,625***	***1.5%***

*Projected 2023 outcome based on current Key Assumption of 3%, applied to Q3 and Q4 of 2023.

2024 KEY ASSUMPTIONS

Administrative Expenses Inflation Factor

Current: **3.0%**
No change

Where Applied: Salary, consulting, communications, training, auditing, and office and administrative costs.

Considerations:

- Cost of living increases may be below this rate over near and mid-term.
- Positions may be filled at lower level than budgeted position authority.
- Actual communications, training, and office and administrative costs are often lower than budgeted amounts.

2024 KEY ASSUMPTIONS
Indirect Costs Rate

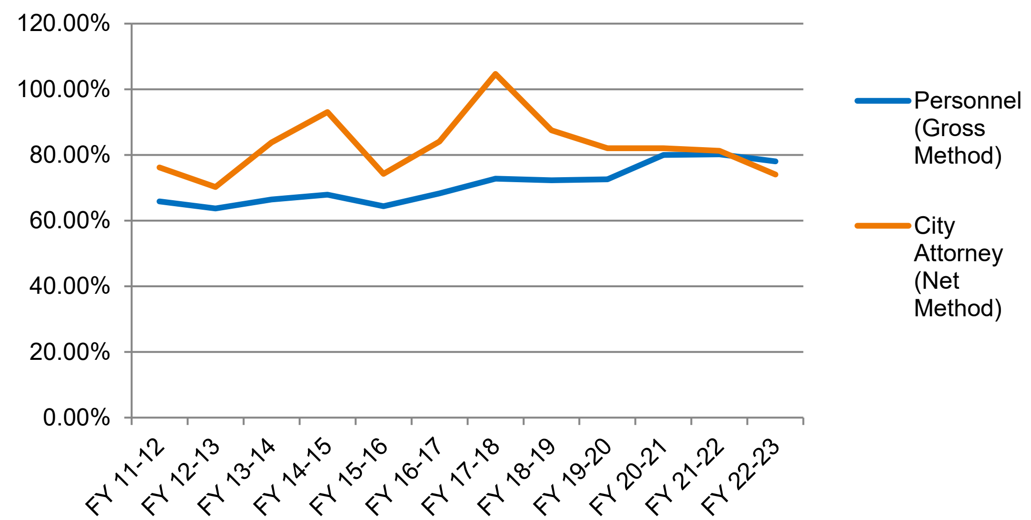
Current: Personnel – **91%**, City Attorney – **93%**
Proposed: Personnel – 85%, City Attorney – 85%

Where Applied: Applied to salary reimbursements to the Personnel Department and City Attorney's Office.

Considerations: Rates fluctuate from year-to-year. Proposed updates to assumptions are based on a projection of 2% annual increases to the current Indirect Costs Rates, resulting in a projected average ten-year rate of 89% and 85% for Personnel and City Attorney staff, respectively.

Historical Indirect Salary Rates*		
Fiscal Year	**Personnel (Gross)**	**City Attorney**
FY 11-12	65.86%	76.17%
FY 12-13	63.73%	70.19%
FY 13-14	66.48%	83.83%
FY 14-15	67.91%	93.09%
FY 15-16	64.39%	74.25%
FY 16-17	68.29%	84.04%
FY 17-18	72.75%	104.67%
FY 18-19	72.24%	87.45%
FY 19-20	72.57%	81.99%
FY 20-21	79.97%	82.05%
FY 21-22	80.18%	81.26%
FY 22-23	78.02%	74.08%
10-Yr Avg	**72.28%**	**84.67%**
5-Yr Avg	**76.60%**	**81.37%**

Indirect Costs Rates* FY 11-12 to Present



*Indirect costs rates are determined by the Office of the Controller each fiscal year. The latest published Rate is **Special Rate 45** for FY 22-23.

2024 KEY ASSUMPTIONS

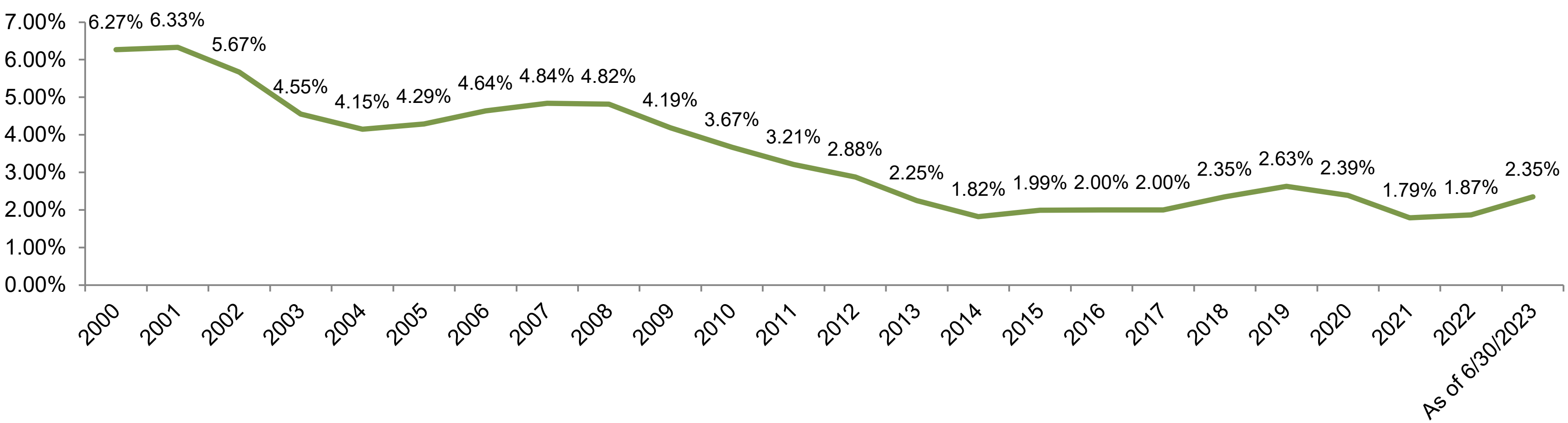
Stable Value Fund
Average Rate of Return

Current: **2.0%**
No change

<u>Where Applied</u>: Estimated interest earnings of the Reserve Fund.

<u>Considerations</u>: Annual return over last five years (ending 2022) averaged 2.21%.
U.S. Federal Reserve Board may increase interest rates.

Historical Annual Return - 2000 to Present



2024 KEY ASSUMPTIONS
Participant Fees

Current:

Basis Point Charge: **0.09%**
Annual Dollar Fee Cap: **$115**

No change

Where Applied: Administrative fee of 0.09% is assessed quarterly (0.0225%) against participant account balances, up to annual maximum dollar fee cap of $115.

Considerations:

- Participant fees were last adjusted at the Board's March 20, 2018 meeting, reducing the administrative fee by one basis point (0.01%) from 0.10% to 0.09%, and reducing the annual dollar fee cap from $125 down to $115 (Board Report 18-08).
- Reductions to Third-Party Administrator (TPA) fees have created structural long-term savings. In September 2022, fees paid to the TPA were reduced from $32.00 to $30.00 per participant account.